The Bucket

By Editorial Staff *Wed, Aug 20, 2014*

Brief or late-breaking items from Milliman, New York Life, TrimTabs, Alta Trust and ETF Model Solutions.

DB pension funded status declines in July: Milliman

In July, the 100 largest defined benefit pension plans sponsored by U.S. public companies fell by $5 billion in funded status, the result of a $3 billion decrease in liabilities and an $8 billion decline in asset value, according to Milliman Inc.'s Pension Funding Index.

"For months it's been interest rates driving up the deficit, but in July the rates cooperated and it was instead poor financial market performance negatively impacting funded status," said John Ehrhardt, co-author of the Milliman 100 Pension Funding Index. "We've seen the deficit increase by more than $70 billion so far in 2014."

This month's study includes perspective on how the Highway and Transportation Funding Act of 2014 (HATFA) may affect pension contributions next year.

If the Milliman 100 pension plans achieved the expected 7.4% median asset return for their pension portfolios, and if the current discount rate of 4.10% were maintained, funded status would improve, with the funded status deficit shrinking to $237 billion (86.1% funded ratio) by the end of 2014 and to $202 billion (88.2% funded ratio) by the end of 2015.

To view the complete study, go to http://us.milliman.com/pfi/.

New York Life receives highest strength rating from Fitch

Fitch Ratings has affirmed New York Life Insurance Company's (New York Life) Insurer Financial Strength (IFS) rating at 'AAA', the highest rating. Fitch has also affirmed all other ratings assigned to New York Life and certain subsidiaries. The rating outlook is Stable.

In explaining the rating, Fitch cited New York Life's "leading market position, extremely strong capitalization, and solid operating profile with favorable risk-adjusted profitability. The ratings also consider the company's above-average exposure to risky assets and ongoing challenges related to the protracted low interest rate environment."

The mutual insurer has a leading position in the U.S. life insurance and annuity markets, diversified business mix, and low-risk product strategy, Fitch said in a release. Key competitive strengths included a strong brand name, well-established market positions, effective career distribution system, and predictable cash flows from individual participating whole life insurance, income and market value-adjusted annuities, and variable annuities without aggressive living benefit guarantees.

Fitch noted that New York Life expanded its statutory surplus by 10% to $21.5 billion at year-end 2013, largely driven by earnings and unrealized investment gains during the year. Fitch estimated the insurer's NAIC risk-based capital (RBC) ratio of 578% as of March 31, 2014. New York Life's financial leverage, defined as surplus notes to total adjusted capital (TAC), remains low at 9.3% at year-end 2013.

New York Life reported higher operating earnings in 2013, partially due to greater asset-based fees driven by favorable capital market performance and sales activity, which was somewhat offset by modest spread compression in interest rate-sensitive business. Fitch believes that New York Life's exposure to potential economic headwinds and the low interest rate environment is manageable.

New York Life's risky assets ratio (measured by below investment-grade bonds, common stocks, schedule BA other invested assets, and troubled real estate as a percentage of total adjusted capital) remained above industry average at 120% as of March 31, 2014. The company's asset-liability management strategy matches a diversified portfolio of limited partnerships and other private equity investments with participating business lines. New York Life's well-diversified, liquid investment portfolio continues to perform well with minimal credit-related impairments in 2013.

Hedge fund assets reach six-year high in June

The hedge fund industry took in $7.7 billion (0.3% of assets) in June, down from $19.1 billion (0.8% of assets) in May, according to BarclayHedge and TrimTabs Investment Research.

"First-half inflows to hedge funds this year totaled $82.5 billion (3.8% of assets), the most since 2007," said Sol Waksman, president and founder of BarclayHedge. The industry took in $26.8 billion (1.5% of assets) in the first half of 2013.

Industry assets climbed to a six-year high of $2.35 trillion in June, according to estimates based on data from 3,441 funds. Assets rose 21.0% in the past 12 months but were down 3.6% from the all-time high of $2.4 trillion in June 2008.

The hedge fund industry gained 1.4% in June, according to the monthly *TrimTabs/BarclayHedge Hedge Fund Flow Report*. While this performance was the best in four months, it was less than the S&P 500's 2.1% gain. In the past 12 months, hedge funds returned 10.8%, while the S&P 500 gained 24.6%.

"Equity Long-Only funds had the best returns in June, gaining 3.4% and outperforming all other fund categories," said Waksman, who also noted that Convertible Arbitrage funds fared worst, edging up 0.4%.

The monthly *TrimTabs/BarclayHedge Survey of Hedge Fund Managers* finds hedge fund managers narrowly divided on the short-term prospects for U.S. equities. July's survey found 37.2% of respondents were bullish on the S&P 500 over the next 30 days, while 34.6% were bearish. Optimism on the U.S. Dollar Index rose to a two-year high, while bullish sentiment on gold hit a five-month high. The proportion of managers expecting crude oil prices to rise dropped to the lowest level in six months.

Liquid-alts option created for qualified plans

Alta Trust Co. and ETF Model Solutions LLC have collaborated to launch the Endowment Collective Fund (*CUSIP: 26923F105*), an investment option for the defined contribution market.

The Endowment Collective Investment Fund (CIF) is designed to give qualified plan participants exposure to "liquid alts"—exchange-traded funds (ETFs) that hold private equity, hedge strategies, real assets and other alternative assets. Its current allocation is 40% global equity, 20% global fixed income and 40% liquid alternatives.

CIFs are pooled investment funds available only to qualified retirement plans. They are regulated by state and federal organizations, such as the Office of the Comptroller of the Currency. Like mutual funds, CIFs are priced daily through the NSCC.

The Endowment CIF is intended to improve on target date or balanced funds in four ways:

- Added protection for the plan sponsor; both the trustee and the manager of the CIF serve in a fiduciary capacity;
- Lower portfolio volatility than portfolios with greater equity allocations due to its

hedge strategy holdings;

- Protection from inflation due a greater allocation to real assets, such as commodities, precious metals, real estate and infrastructure investments; and,
- Lower interest rate risk due to a smaller allocation to fixed income investments.

The Endowment CIF uses a core-satellite portfolio construction. Low-cost, cap-weighted equity and fixed income ETFs comprise the core allocation of the asset class. Fundamentally weighted funds are used to pursue alpha.

Alta Trust maintains selling agreements with most major retirement plan platforms. Plan advisors can offer the Endowment CIF to their plan sponsor clients through their existing platform relationships. Plan sponsors can add the Endowment CIF to their plans through a simple participation agreement, while maintaining their current investment options as well as their existing advisor/TPA/recordkeeping relationships.

ETF Model Solutions LLC is a third-party ETF strategist specializing in customizable ETF-based asset allocation models. Alta Trust (Fund Trustee) acts as trustee for collective investment funds and provides daily oversight of fund trading activity and accounting as well as annual auditing for qualified plans.